



**U.S. Department of the Interior
Office of Inspector General**

SURVEY REPORT

**FEE COMPLIANCE PROGRAM,
OFFICE OF SURFACE MINING
RECLAMATION AND ENFORCEMENT**

**REPORT NO. 97-I-1303
SEPTEMBER 1997**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC. 20240

OCT - 2 1997

MEMORANDUM

TO: The Secretary
Wilma A. Lewis
Inspector General

SUBJECT SUMMARY: Final Survey Report for Your Information - "Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement" (No. 97-I-1303)

Attached for your information is a copy of the subject final survey report. The objective of the review was to determine whether the Office of Surface Mining Reclamation and Enforcement, through its Fee Compliance Program, assessed and collected reclamation fees and performed audits of coal mining companies in an efficient and effective manner and in compliance with applicable laws and regulations.

Based on limited testing, we concluded that the Office of Surface Mining generally conducted its Fee Compliance Program in an efficient and effective manner and in compliance with authorizing legislation and applicable regulations. However, we found that the Office of Surface Mining could streamline its reclamation fee collection process by enabling coal mine operators to transmit reports on their quarterly coal production electronically.

Based on the Office of Surface Mining's response to the report's recommendation, we considered the recommendation resolved but not implemented.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Assistant Inspector General for Audits, at (202) 208-4252.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

SEP 30 1997

SURVEY REPORT

Memorandum

To: Assistant Secretary for Land and Minerals Management

From: Robert J. Williams *Robert J. Williams*
Assistant Inspector General for Audits

Subject: Survey Report on the Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement (No. 97-I-1303)

INTRODUCTION

This report presents the results of our survey of the Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement. The objective of the review was to determine whether Surface Mining, through its Fee Compliance Program, assessed and collected reclamation fees and performed audits of coal mining companies in an efficient and effective manner and in compliance with applicable laws and regulations.

BACKGROUND

Title IV of the Surface Mining Control and Reclamation Act of 1977 (Public Law 95-87), as amended, provides for a comprehensive reclamation program to rectify adverse conditions resulting from past coal mining practices. Funding for the program is derived primarily through the collection of a tonnage-based reclamation fee assessed on current coal production and paid quarterly by coal mine operators. The Act provides for reclamation fees of 35 cents per ton of surface-mined coal, 15 cents per ton of underground-mined coal, and 10 cents per ton of lignite.¹ The fees are deposited into the Abandoned Mine Reclamation Fund in the U.S. Treasury, and Congressional appropriations from the Fund are used to finance: (1) grants to states and Indian tribes to implement reclamation programs and small operator assistance programs; (2) Federal reclamation program activities that are directly administered by Surface Mining; and (3) Surface Mining's Fee Compliance Program. Also,

¹A brownish black, lower grade variety of coal.

the Energy Policy Act of 1992 requires Surface Mining to transfer annually up to \$70 million from interest earned on the Abandoned Mine Reclamation Fund to the United Mine Workers of America Combined Benefit Fund. During fiscal year 1996, Surface Mining collected reclamation fees of approximately \$255 million, including related interest and penalties.

Surface Mining's Assistant Director for Finance and Administration has overall responsibility for the collection and audit of reclamation fees. These responsibilities are carried out by the Divisions of Financial Management and Compliance Management. Financial Management, located in Denver, Colorado, is responsible for billing, collecting, and accounting for reclamation fees. Financial Management uses: (1) the automated Fee Billing and Collection System to track fee collections, including interest, penalties, and administrative costs, and to issue bills for collection and demand letters for delinquent fees and (2) the automated Audit Fee Billing and Collection System to issue bills for collection and record accounts receivable and collections related to the audits performed by Compliance Management. In fiscal year 1996, Financial Management had 12 employees and spent about \$1.6 million on fee collection activities. Compliance Management, which comprises a headquarters office in Pittsburgh, Pennsylvania, and 12 field offices (see Appendix 1), is responsible for verifying the accuracy of reclamation fee payments through periodic audits of coal producers and analyses of other coal production data. In fiscal year 1996, Compliance Management had 52 employees, spent about \$3.7 million for its operations, and issued 383 audit reports that identified underreported or unreported reclamation fees of about \$4 million.

SCOPE OF SURVEY

Our survey was conducted from March through May 1997 at Surface Mining's headquarters in Washington, D.C.; the Compliance Management office in Pittsburgh; and the Financial Management office in Denver. To accomplish our objective, we reviewed a random sample of fees assessed and collected and audit reports and corresponding working papers completed during fiscal year 1996. Our sample consisted of 60 collections, totaling \$1.7 million, of the 7,960 collections, totaling \$255 million, made during fiscal year 1996 by the Financial Management Division and 30 audit reports, which had underreported or unreported fees totaling about \$24,000, of the 383 audit reports, which had underreported or unreported fees totaling about \$4 million, issued by Compliance Management during fiscal year 1996. The 30 audit reports tested included reports from 7 of the 12 Compliance Management field offices (see Appendix 1). Because our tests did not disclose any material weaknesses in Surface Mining's fee collection and audit activities, we limited our review to the survey phase. We did not review the accuracy of the data contained in Surface Mining's Applicant Violator System, which is used to identify companies that are subject to reclamation fees, because such a review would have required an analysis of state records (most of the System data are input by the states). Therefore, we did not determine whether all producing mining operations subject to the fees had been identified. We also did not review the procedures related to the collection of delinquent debt because an Office of Inspector General review

of these procedures was completed in 1996 (see the Prior Audit Coverage section of this report).

We limited the scope of our review in the areas of internal controls, cash collections, and accounts receivable by relying on the audit work performed as part of a separate audit (Report No. 97-I-271) of Surface Mining's financial statements for fiscal year 1996 (see the Prior Audit Coverage section of this report).

Our survey was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to accomplish our objective. In planning our survey, we reviewed the Department of the Interior's Annual Statement and Report, which is required by the Federal Managers' Financial Integrity Act of 1982, for fiscal year 1995 and determined that the Department did not report any material weaknesses related to the objective and scope of our review. In evaluating Surface Mining's system of internal controls over collecting fees and conducting audits, we found that improvements could be made in procedures relating to the collection of coal fee report information. Specifically, this information could be transferred electronically instead of entered manually for reporting operators that paid 93 percent of the reclamation fees collected in fiscal year 1996, as discussed in the Results of Survey section of this report. Our recommendation, if implemented, should improve the procedures in this area.

PRIOR AUDIT COVERAGE

While the General Accounting Office has not performed an audit of Surface Mining's Fee Compliance Program during the past 7 years, the Office of Inspector General has issued, during this time period, three reports on the program and six reports on Surface Mining's financial statements as follows:

- "Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement" (No. 90-99), issued in September 1990, stated that Surface Mining needed to: (1) improve its audit planning process and ensure that companies with the highest potential for owing additional fees were selected for audit; (2) improve the monitoring and timeliness of the debt collection process; and (3) ensure that audit working papers were reviewed before reports were issued. The report's 18 recommendations were considered to be implemented.

- "Followup of Recommendations Concerning the Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement" (No. 93-I-189), issued in November 1992, stated that the seven recommendations related to Surface Mining's audit planning process made in our September 1990 audit report on the Fee Compliance Program had been implemented.

- "Debt Management, Office of Surface Mining Reclamation and Enforcement and Office of the Solicitor" (No. 96-I-639), issued in March 1996, stated that the Solicitor's Office was

not processing debt cases in a timely manner and that Surface Mining could improve its debt collection activities by: (1) maintaining Division of Debt Management staff at the level needed to process delinquent debt efficiently; (2) implementing administrative controls to ensure that required debt collection functions are performed in compliance with Federal regulations; and (3) reviewing the status of debt that has been referred to the Solicitor to ensure that receivables are reported accurately and accounted for fully. The report made nine recommendations, all of which were considered resolved and implemented.

- “Office of Surface Mining Reclamation and Enforcement Financial Statements for Fiscal Years 1995 and 1996” (No. 97-I-271), issued in December 1996, stated that Surface Mining’s financial statements and accompanying notes were fairly presented. The report also stated:

Surface Mining’s internal control structure in effect on September 30, 1996, was sufficient to safeguard assets against loss from unauthorized use or disposition; ensure that transactions were executed in accordance with laws and regulations; ensure that transactions were properly recorded, processed, and summarized; and provide reasonable assurance that any losses, noncompliance, or misstatements that are material to the financial statements would be detected.

- The five prior reports on audits of Surface Mining’s financial statements contained similar conclusions regarding Surface Mining’s internal control structure.²

RESULTS OF SURVEY

Based on the limited tests made during our survey, we concluded that the Office of Surface Mining Reclamation and Enforcement generally conducted its Fee Compliance Program, including both fee collection and audit activities, in an efficient and effective manner and in accordance with authorizing legislation and regulations at the locations we reviewed. However, we noted that improvements could be made in the area of the recording of fee report information in the Fee Billing and Collection System.

Fee Collections

Based on a review of internal controls over fee collections and on tests of collection procedures and information in the Fee Billing and Collection System and the Audit Fee Billing and Collection System, we concluded that for known coal producers, Surface Mining’s fee collection procedures were generally efficient and effective. Specifically, the billing, collection, accounts receivable, and dunning information contained in these systems was accurate, complete, and recorded in accordance with applicable laws and regulations and

²Reports Nos. 91-I-1272, 93-I-333, 94-I-535, 95-I-417, and 96-I-400 were issued in September 1991, December 1992, April 1994, January 1995, and February 1996, respectively.

accounting procedures. However, Surface Mining could improve the efficiency of its fee collection procedures by requiring the electronic transfer of fee reporting data.

Surface Mining requires all coal operators to submit hard copies of the Coal Reclamation Fee Report (Form OSM-1) and to electronically transmit fee payments of more than \$25,000. All Forms OSM-1 are received at a contractor lockbox in Pittsburgh and are mailed to Financial Management in Denver, where information from the forms is manually entered into the Fee Billing and Collection System after the payments have been recorded. In our opinion, direct electronic reporting of the information on Forms OSM-1 to Financial Management by those companies now required to submit electronic payments could result in cost savings by eliminating the need to process and mail Forms OSM-1 from Pittsburgh to Denver and to manually enter the information into the System. Many of the reporting coal operators are large companies that should have the capability for electronic filing. For example, in fiscal year 1996, 278 of 989 reporting operators used electronic transfers to pay \$238 million (93 percent) of the total \$255 million in fees paid during this period. Surface Mining officials said that the electronic transmission of data on Forms OSM-1 had been included in their operating workplans for fiscal years 1996 and 1997 but that they had not implemented action on this initiative because of limited resources and because the Surface Mining Control and Reclamation Act required the certification of Forms OSM-1 by a notary public. However, these officials said that they planned to determine how to meet the certification requirement using electronic data interchange.

Fee Compliance Audits

Surface Mining has made substantial improvements in its fee compliance audit process since our prior review and has established and implemented adequate procedures for planning and conducting audits of coal companies to ensure that proper reclamation fees were paid. Specifically, we found that:

- Several phases of the fee compliance auditing system have been automated, including sample selection, data analysis, and working paper and audit report preparation. This automated system, which was developed in-house, has improved the efficiency of the audit process.
- An audit procedures manual containing guidance on survey and fieldwork performance, statistical sampling procedures, working paper documentation, and report writing was developed and utilized.
- Audit resource allocation plans, which provided guidance on planning and prioritizing audits, were developed and used effectively. These plans ensure that audit priority is given to those companies that have the greatest potential for owing additional fees.

- A quality assurance review program was established to: (1) ensure that audits are conducted effectively and in accordance with Surface Mining procedures and (2) improve the quality of audit management and performance.
- An audit appeals system was established to formally resolve operators' disputes with audit findings.
- Procedures were established to inform other interested Federal agencies, including the Internal Revenue Service, of audit results.

In addition, based on our review of the working papers for 30 of the 383 audit reports issued by Surface Mining in fiscal year 1996, we found that sufficient audit procedures were performed to identify unreported fees, that audits were conducted in accordance with the "Government Auditing Standards," that working papers adequately supported the information presented in the audit reports, and that the results of the audits were timely reported to the Financial Management Division for billing purposes.

Recommendation

We recommend that the Director, Office of Surface Mining Reclamation and Enforcement, determine, based on an opinion from the Office of the Solicitor, the allowability and feasibility of requiring coal operators to electronically transfer information included in the Coal Reclamation Fee Reports (Forms OSM-1) to the Division of Financial Management. If it is determined that the electronic transfer process is allowable and feasible, procedures should be developed and implemented to facilitate such processing of information on Forms OSM-1.

Office of Surface Mining Reclamation and Enforcement Response and Office of Inspector General Reply

In the September 19, 1997, response (Appendix 2) to our draft report from the Director, Office of Surface Mining Reclamation and Enforcement, Surface Mining concurred with our recommendation and identified the actions that will be taken to implement the recommendation. However, Surface Mining did not include a specific target date for implementation, stating that corrective action is contingent upon receipt of a legal opinion from the Solicitor's Office. Based on the response, we consider the recommendation resolved but not implemented. Accordingly, the recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 3).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, actions taken to implement audit

recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Office of Surface Mining personnel in the conduct of our audit.

APPENDIX 1

**SUMMARY OF FEE COMPLIANCE
AUDIT REPORTS REVIEWED**

<u>Office of Surface Mining Field Offices</u>	<u>Audit Reports Issued (FY 96)</u>	<u>Audit Reports Reviewed</u>
Birmingham, Alabama	21	3
Ashland, Kentucky	5	0
London, Kentucky	46	2
Madisonville, Kentucky	19	1
Pikesville, Kentucky	44	1
Kansas City, Missouri	14	1
Pittsburgh, Pennsylvania	110	21
Wilkes-Barre, Pennsylvania	8	0
Knoxville, Tennessee	12	0
Lebanon, Virginia	36	1
Beckley, West Virginia	36	0
Morgantown, West Virginia	<u>32</u>	<u>0</u>
Total	<u>383</u>	<u>30</u>



United States Department of the Interior

OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT Washington, D.C. 20240

SEP 18 1997

Memorandum

To: Assistant Inspector General for Audits

Through: Bob Armstrong *Put this in* SEP 19 1997

FOR Assistant Secretary, Land and Minerals

From: Kathy Karpan *KK*
Director, Office of Surface Mining

Subject: Response to Draft Survey Report on Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement (Assignment No. E-IN-OSM-002-97)

Thank you for the opportunity to comment on your August 5, 1997, memorandum and draft survey report entitled, Fee Compliance Program, Office of Surface Mining Reclamation and Enforcement (OSM) (Assignment No. E-IN-OSM-002-97). We appreciate the thoroughness and professionalism demonstrated by your staff. They clearly defined the review objectives, and we were allowed to provide the requested data with minimum disruption to our daily operations.

We have worked diligently to implement recommendations from prior Office of Inspector General (OIG) reviews that have contributed to the success of the Abandoned Mine Land Fee Compliance program. OSM is proud of this program which has collected over \$4.1 billion since its inception through Fiscal Year 1996, and has provided over \$2.3 billion in grant funds to the states and tribes.

We have completed our review of the draft survey and concur with the finding and recommendation regarding electronic submission of data required from coal companies. Our specific plans for implementing your recommendation are explained in the attachment. The Assistant Director for Finance and Administration is the responsible official for carrying out the implementation plan.

If you have any questions concerning our response, please contact George Stone, Audit Coordinator, Office of Strategic Planning and Budget, at (202) 208-7840.

Attachment

**Planned Action on Recommendation in OIG Draft Survey Report -
Fee Compliance Program (E-IN-OSM-002-97)**

The table below reflects the actions planned to implement the recommendation and a projected target date for completion of this action.

Recommendation	Planned Action	Projected Completion Date	Action Official
Obtain a legal opinion on SMCRA's "notary requirement" from the Office of the Solicitor to determine the allowability and feasibility of requiring coal operators to electronically transfer information included in the Coal Reclamation Fee Report (Form OSM-1) to the Division of Financial Management.	<p>Send a letter to the Office of the Solicitor seeking a legal opinion on SMCRA's "notary requirement" regarding allowability and feasibility of requiring coal operators to use electronic transmission when sending completed OSM-1 forms to DFM.</p> <p>Based on a positive response from the Office of the Solicitor, initiate a pilot study, evaluate results, develop or procure programming, and establish procedures for required electronic transmission.</p> <p>Implement electronic transmission process</p>	09/30/97 12 - 15 months after receiving a positive response from the Solicitor. 13 months after above planned action.	AD/FA AD/FA AD/FA

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/ Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

**ILLEGAL OR WASTEFUL ACTIVITIES
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